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STATE FOR EAP/TC, EB/TBB/BTA
STATE PASS TO USTR/BLUE AND WINELAND AND AIT/W
COMMERCE FOR 4431/ITA/MAC/AP/OPB/TAIWAN

E.O. 12958: N/A
TAGS: ETRD ECON EFIN TW
SUBJECT: TAIWAN: PART ONE OF 2009 NATIONAL TRADE ESTIMATE REPORT
REF: STATE 88685

TRADE SUMMARY

¶1. The U.S. goods trade deficit with Taiwan was \$11.9 billion in 2007, a decrease of \$3.2 billion from \$15.2 billion in 2006. U.S. goods exports in 2007 were \$26.4 billion, up 14.4 percent from the previous year. Corresponding U.S. imports from Taiwan were \$38.3 billion, up 0.2 percent. Taiwan is currently the 10th largest export market for U.S. goods.

¶2. U.S. exports of private commercial services (i.e., excluding military and government) to Taiwan were \$7.1 billion in 2006 (latest data available), and U.S. imports were \$7.0 billion. Sales of services in Taiwan by majority U.S.-owned affiliates were \$11.2 billion in 2005 (latest data available), while sales of services in the United States by majority Taiwan-owned firms were \$439 million.

¶3. The stock of U.S. foreign direct investment (FDI) in Taiwan was \$16.4 billion in 2007 (latest data available), up from \$16.1 billion in 2006. U.S. FDI in Taiwan is largely in the finance, manufacturing, and wholesale trade sectors.

¶4. The United States and Taiwan continued to work together to enhance economic cooperation through the bilateral Trade and Investment Framework Agreement (TIFA) process. The TIFA, which was signed in 1994, provides an important mechanism for both parties to resolve bilateral trade issues and to address the concerns of the U.S. business community.

IMPORT POLICIES

Tariffs

¶5. Taiwan comprehensively revised its tariff schedule in 2006, and continuing unilateral improvement to its tariff structure on finished goods and raw materials have pushed down the average nominal tariff rate on imported goods to 5.56 percent from 5.6 percent in 2006.

¶6. However, in order to stabilize commodity prices in Taiwan, the Executive Yuan (EY) implemented temporary tariff cuts on seven bulk imports - including wheat, flour, and flour of soybean and corn - until February 5, 2009, and in addition implemented additional temporary measures to cover all other types of durum wheat, tomatoes preserved other than by vinegar or acetic acid, sesames, milk and cream in powder form, and butter.

¶7. Taiwan is working to pass legislation outlining a new version of its tariff schedule to meet the World Customs Organization's Harmonized System (HS) requirements. Taiwan estimates it needs to reclassify goods in more than 11 percent of its tariff lines. U.S. industry continues to request that Taiwan lower tariffs on many goods, including large motorcycles, wine, canned soups, cookies (sweet biscuits), savory snack foods, vegetable juices, potato and

potato products, table grapes, apples, fresh vegetables, and citrus products.

¶ 8. When Taiwan became a WTO Member in January 2002, Taiwan implemented tariff-rate quotas (TRQs) on small passenger cars, three categories of fish and fish products, and a number of agricultural products. On January 1, 2007, in accordance with its WTO commitments, Taiwan made additional tariff cuts and increased TRQ amounts on these products. For example, the commodity tax on passenger cars with engine displacement of over 2000cc dropped from 35 percent to 30 percent, and this rate will remain in place until ¶ 2011. Also by 2011, Taiwan has committed to fully eliminate TRQs on small passenger cars.

¶ 9. Taiwan maintains Special Safeguards (SSGs) for a number of agricultural products covered by TRQs. SSGs, permitted under Article 5 of the WTO Agreement on Agriculture, allow Taiwan to impose additional duties when import quantities exceed SSG trigger volumes or import prices fall below SSG trigger prices. Because Taiwan did not previously import many of these products, SSG trigger volumes are relatively low. Over the last few years, Taiwan has imposed safeguard provisions on poultry imports several times, and SSGs have also been triggered on several other products, including types of offal. Imports of affected products usually continue despite safeguard tariffs.

¶ 10. Taiwan has eliminated more than 99 percent of import controls, but 87 product categories still face import restrictions, up from 71 product categories in 2008. Of these categories, 24 require import permits from the Board of Foreign Trade (BOFT) and 63 are prohibited. Most of the permit-required categories are related to public sanitation and national defense concerns and include ammunition and some agricultural products.

Agricultural and Fish Products

¶ 11. Beef: Taiwan allows the import from the United States of deboned beef from animals less than 30 months of age, but requires that tissues listed by the World Health Organization for Animal Health (OIE) as Specified Risk Materials (SRMs) appropriate for removal from animals over 30 months of age are removed from animals less than 30 months of age as well. Ruminant and non-ruminant products intended for use in animal feed and pet food -- such as tallow (including protein-free tallow), lard, poultry and porcine meal -- are banned due to Bovine Spongiform Encephalopathy (BSE) related concerns, while limited exceptions for pet food have been approved after a thorough case-by-case review or plant clearance process. Taiwan does not maintain a BSE-related import suspension on U.S.-origin protein-free tallow for human consumption.

¶ 12. The United States has engaged Taiwan intensively to request that imports of U.S. beef and beef products (and non-ruminant products subject to the BSE-related suspensions) be resumed consistent with OIE guidelines and the May 2007 OIE classification of the United States as controlled-risk for BSE. Taiwan indicates it has completed its regulatory review on the U.S. request after finalizing a report on the risk assessment study and a second on-site visit to U.S. beef slaughter and processing facilities conducted by the Department of Health (DOH) and experts on its BSE Risk Advisory Committee. A similar, independent risk assessment on beef products for animal feeding conducted by the Council of Agriculture (COA) and its review committee was completed, but progress on the proposed rule-making process has languished. With the scientific review and technical work complete, the only step that remains is a final decision and the necessary administrative procedures to expand access. While the U.S. Government has pushed hard for opening, the Taiwan authorities have delayed action in anticipation of negative domestic reaction, especially from consumer groups.

¶ 13. Resuming the trade in trade of bone-in beef and other beef products would increase U.S. exports by \$50-100 million based on pre-ban trade figures and hopes for market growth driven by record exports to Taiwan of U.S. boneless beef in 2008.

¶ 14. Organics: In 2007, Taiwan promulgated new "Imported Organic Agricultural Product and Organic Agricultural Processed Products" regulations, which will come to effect on January 29th, 2009.

Based on the new regulations, COA will adopt a two-step review system for raw or processed organic agricultural products. First, COA will review the equivalence of the international accreditation organization, and then importers must apply for COA approval for each batch at importation with the required documentations including certificates from COA-recognized certifiers. The products can not claim "organic" on the packaging unless COA approves both steps of the review. However, COA currently does not recognize any international accreditation organizations for agricultural processed products, which may prevent importation of organics after the new regulations take effect.

¶15. Based on the current volume of trade, these regulations will affect \$10-25 million of U.S. exports.

¶16. Rice: Taiwan's ceiling price mechanism is a major impediment to Taiwan's fulfillment of its World Trade Organization (WTO) obligations for rice because the system fails to keep pace with market conditions. The ceiling price over the past year has been routinely lower than those bid by U.S. exporters, causing tenders to fail. As of November 2008, Taiwan has been unable to fill its 2007 country specific quota (CSQ) for U.S. rice under the traditional public tender portion of the quota. Taiwan has provided numerous arguments for not filling the 2007 quota and for delaying the 2008 tender schedule. These ranged from not wanting to affect world rice prices during a global food crisis, to having insufficient funds to purchase rice, to pointing out unusually high prices of California medium grain rice that exceed domestic wholesale prices, which would constitute COA paying a "subsidy" for imported rice.

¶17. Estimated trade impact on U.S rice exporters is \$17,280,000 based on the unfilled 2007 U.S. quota of 32,000 metric tons at a free-on-board value of \$540 per metric ton.

¶18. Wood Products: Taiwan recently revised its building codes in line with international practices, and on October 31st, 2008, the Construction and Planning Agency of the Ministry of the Interior announced long-awaited companion fire codes for wood frame construction. U.S. industry believes the new codes will allow builders to obtain insurance for construction and further encourage wood use in construction. Fire codes for heavy timber were not included in this announcement. However, those interested in using heavy timber in construction can apply to the Taiwan authorities for fire resistance testing, though this option is prohibitively costly.

¶19. According to U.S. industry sources, these building code revisions may add \$10 million to U.S. exports to Taiwan.

¶20. Automobiles and Motorcycles: On November 1, 2007, the Ministry of Transportation and Communications (MOTC) opened most expressways to large motorcycles with engine displacement of 550cc or more, and asked the Directorate General of Highways (DGH) to further study the feasibility of opening highways to those motorcycles. The deadline of the study will be in November 2009. The tariff on small automobiles is 30 percent, that of motorcycles between 250-500cc displacement is 18 percent, and that of above-500cc-displacement motorcycles is 20 percent.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

¶21. Over 70 percent of the standards established by Taiwan's Bureau of Standards, Metrology & Inspection (BSMI) have been harmonized to some extent with international standards, and BSMI is continuing to harmonize existing standards with international standards. Taiwan's Chinese National Standards (CNS), which are based on International Electro-Technical Commission (IEC) standards, provide rules and guidelines for products, processes and services.

Agricultural Biotechnology Products

¶22. The current Taiwan agricultural biotechnology regulations are only applied to soybeans, corn and products of soybean and corn. No bioengineered soybeans or corn may be produced, processed, prepared, packed, and imported or exported unless they are registered and approved by the Taiwan Department of Health (DOH) Food Safety Bureau

(FSB). Taiwan has approved 18 of the most widely commercialized bioengineered corn and soybean events.

¶23. At present, Taiwan only regulates corn and soybeans and their products derived from recombinant-DNA. According to Taiwan's current biotechnology regulations, prior market approval for biotech soybean and corn imports is required for food, feed or processing use (FFP use). In May 2008, Taiwan implemented registration for stacked events. While no disruptions to trade have resulted from Taiwan's biotechnology regulations, newly registered stack events have added to the growing number of products entering the regulatory approval pipeline. This increase in applications, combined with resource constraints in the domestic regulatory infrastructure, may lead to approval delays.

Alcoholic Beverage Products

¶24. Taiwan has no ingredient-labeling requirements for alcoholic beverages, though beverages must include a warning label stating that excessive drinking is harmful to one's health. Since January 1, 2008, alcohol product manufacturers and importers must comply with the Hygiene Standards for Alcohol Products on antiseptics, colorants, and additives, or face penalties of up to \$90,900. Importers of alcoholic beverages can submit home country documentation of sanitary inspection or safety assurances issued by alcohol product inspection officials or professional alcohol associations as an alternative to customs-clearance product inspection.

Automobiles

¶25. Before 2004, Taiwan's market was open to vehicles that met either the North American Federal Motor Vehicle Safety Standards (FMVSS) or the United Nations Economic Commission for Europe (ECE) vehicle safety standard. In 2004, however, the Ministry of Transportation and Communication (MOTC) began to phase in ECE standards in order to harmonize Taiwan with the majority of the world's markets outside of North America. The new rules took partial effect for passenger cars in July 2008, and will take full effect for all vehicles in Taiwan by January 2013.

¶26. Non-passenger vehicles, however, must already meet ECE standards to be sold in Taiwan. For FMVSS-spec vehicles that have manufacturer-provided "Self-certification" reports, Taiwan offers an alternative certification method through its Automotive Research and Testing Center (ARTC). The process, however, is expensive and manufacturers complain that ARTC lacks sufficient test facilities and technical capabilities to conduct the needed tests.

Biotechnology Foods

¶27. Taiwan requires labels on foods containing biotechnology corn or soybeans. All food products containing 5 percent or more bioengineered soybean or corn ingredients by weight must be labeled as "Genetically Modified (GM)" or "Containing Genetically Modified." Highly processed food items (items with no proteins or DNA) do not require GM labels.

Industrial and Home Appliance Products

¶28. Taiwan accepts testing by National Institute of Standards and Technology-designated laboratories in the United States for information technology equipment as described in the APEC Telecom Mutual Recognition Arrangement implemented by the United States and Taiwan with respect to Phase I on March 16, 1999. Under Taiwan's Commodity Inspection Act, industrial and home-appliance products, such as air-conditioning and refrigeration equipment, must meet safety and Electromagnetic Compatibility (EMC) testing requirements before clearing customs. US-produced electrical home appliances are certified by the United States' American National Standard (ANSI) or meet with Underwriters Laboratories (UL) Standards, but Taiwan's Bureau of Standards, Metrology, and Inspection (BSMI) requires these imports comply with Taiwan's International Electro-Technical Commission (IEC)-based safety standards, fording ANSI or

UL-certified products to undergo duplicative safety testing by IEC-consistent laboratories.

¶129. Since 2006, BSMI has regulated levels of lead, mercury, hexavalent chromium, polybrominated biphenyls, and polybrominated biphenyl ether in electro-technical products. Such products must pass BSMI-required product testing or production-site inspection. In addition to existing EMC and safety requirements, television receivers must be able to receive over-the-air digital television (DTV) broadcast signals.

Maximum Residue Limits (MRLs)

¶130. Taiwan's unwillingness to recognize international MRLs while it takes action to reduce a backlog of over 1,400 MRL applications is creating a significant level of uncertainty in the U.S. agricultural industry. Because of the enormity of the backlog, an agreement by Taiwan to reference Codex and U.S. MRLs, in the absence of Codex tolerances, is crucial to avoid potential trade disruptions.

¶131. Taiwan's inability to keep pace with requests to establish MRLs for pesticides has resulted in the rejection of various U.S. agricultural shipments including wheat, barley, strawberries, and corn due to residue violations. A particularly visible case has been the pork ractopamine issue. Taiwan banned the use of ractopamine domestically without any scientific assessment questioning its safety. Even though Taiwan officials acknowledge that there is no health risk due to trace amounts of ractopamine in U.S. pork, in 2007, Taiwan began testing for ractopamine in U.S. pork, leading to a drop in imports of non-offal U.S. pork meat. Under domestic pressure from farmers, Taiwan has strongly resisted establishing a safe MRL for ractopamine despite having announced its intent to do so to the WTO in August 2007.

¶132. In response to trading partner concerns, Taiwan recently established a priority list of 218 MRLs. The Taiwan Department of Health (DOH) will review applications for these high-priority MRLs over the next two-to-three years in an effort to reduce the backlog for establishing pesticide tolerances.

¶133. Based on the pre-ban 2006 trade volume, we estimate that Taiwan's lack of a safe MRL for ractopamine is affecting \$10-25 million of U.S. pork exports.

¶134. Melamine: In the wake of a fall 2008 melamine-contamination scandal involving adulterated dairy products in China, the Taiwan Department of Health (DOH) initially set a 2.5 ppm tolerance level for melamine presence in foods. Due to consumer concerns, however, the DOH quickly withdrew the 2.5 ppm tolerance and instituted a "non-detectable" tolerance using the most sensitive testing equipment available, making the 0.05ppm detection limit adopted for these tests the de facto tolerance for melamine in foods.

¶135. In late September 2008, Taiwan announced an indefinite import suspension on all Chinese-made milk, milk powder, ice cream bases, and dairy-containing beverage/mix, prepared and processed milk products, ice cream, animal protein products and protein derivatives, and other products. Taiwan also imposed stringent melamine scrutiny on products from non-China sources by implementing a new, temporary test report requirement for imports in three categories: milk powder, infant formula, and creamers. Under the new requirements, each batch of the covered products (a total of 20 HS codes) destined for Taiwan that was loaded on board on or after October 8, 2008 now requires presentation of a melamine-free test report from a government-certified or appropriately accredited laboratory at import arrival.

¶136. In the absence of such pre-export certification, the importer must provide a melamine-free test report conducted by a Taiwan DOH-accredited laboratory before customs clearance. However, an exporting country also has the option of seeking a waiver from this requirement by submitting a letter and supporting documentation to DOH that explains the country's system of safety controls for dairy production, processing and distribution, including information on relevant regulations and test data for melamine.

¶137. We estimate that Taiwan's certification requirement for U.S.

dairy exports is affecting U.S. exports by \$10-20 million based on current trade volume.

Sanitary and Phytosanitary Measures

¶38. Taiwan accepts meat and poultry imports from plants approved by the USDA Food Safety Inspection Service, and also accepts Codex Alimentarius or U.S. pesticide residue standards on a provisional basis for a limited number of chemicals used on imported fruits and vegetables. The slow and cumbersome approval process for new maximum residue limits for chemical/product combinations, however, poses a potential threat to current U.S. fresh produce and grain shipments. Moreover, the United States continues to be concerned that some Taiwan plant and animal quarantine measures are not necessarily based on sound science and are more trade restrictive than necessary to ensure health and safety.